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C O N F I D E N T I A L SECTION 01 OF 06 OECD PARIS 01703

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SUBJECT: IEA: STANDING GROUP ON THE OIL MARKET -
IMPLICATIONS OF THE DUAL PRICING SYSTEM IN THE
INTERNATIONAL OIL MARKET IN 1977

REF: WILSON/LEVINE TELCON
FOR EB/ORF/FSE-.RICHARD MARTIN
AS REQUESTED THERE FOLLOWS THE TEXT OF OECD DOCUMENT
IEA/SOM(77)2, DATED JANUARY 18, 1977, STANDINQ GROUP ON
THE OIL MARKET - IMPLICATIONS OF THE DUAL PRICING
SYSTEM IN THE INTERNATIONAL OIL MARKET IN 1977.
THIS PAPER BEARS THE OECD CLASSIFICATION HIGHLY CONFIDENT
BEGIN TEXT

AT ITS 26TH MEETING ON 20TH DECEMBER, 1976, THE
GOVERNING BOARD REQUESTED THE STANDING GROUP ON THE
OIL MARKET TO MAKE AN IN-DEPTH ANALYSIS OF THE POSSIBLE
REPERCUSSIONS OF THE DUAL PRICING SYSTEM ON THE WORLD
OIL MARKET AND ON THE IEA'S OVERALL ENERGY POLICY
OBJECTIVE, AND TO REPORT BACK TO THE GOVERNING BOARD
AT ITS NEXT MEETING ON 31ST JANUARY/1ST FEBRUARY, 1977.

CONSULTATIONS WITH SHELL INTERNATIONAL PETROLEUM
CO. LTD., AND WITH EXXON CORPORATION ARE SCHEDULED BY
THE SOM AT ITS MEETING OF 24TH-25TH JANUARY. IN ORDER
TO ASSIST IN THE PREPARATION OF THESE CONSULTATIONS
AND OF THE REPORT BY THE SOM TO THE GOVERNING BOARD,
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THE SECRETARIAT HAS PREPARED THE ATTACHED NOTE' WHICH
IS SUPPORTED BY A NUMBER OF ANNEXES (UNDER SEPARATE
COVER) CONTAINING BACKGROUND INFORMATION AND ANALYSES.

THE SECRETARIAT CONSIDERS THIS DOCUMENT TO BE
SENSITIVE AND HAS THEREFORE CLASSIFIED IT AS 'HIGHLY
CONFIDENTIAL'. FOR THIS REASON CIRCULATION HAS BEEN

RESTRICTED TO THREE NUMBERED COPIES PER DELEGATION.
IT IS REQUESTED THAT PARTICIPATING COUNTRIES ASSIGN AN
EQUIVALENT NATIONAL SECURITY CLASSIFICATION TO THE
DOCUMENT AND ACCORD IT SPECIAL HANDLING BY RESTRICTING
IT TO PERSONS HAVING A NEED TO KNOW.

IMPLICATIONS OF THE DUAL PRICING SYSTEM
IN THE INTERNATIONAL OIL MARKET IN 1977

I. INTRODUCTION

1. AT THE MINISTERIAL CONFERENCE OF OPEC WHICH MET IN
DOHA, QATAR, 15-17 DECEMBER, 1976, 11 OPEC MEMBER STATES
DECIDED TO RAISE THE PRICE OF CRUDE OIL BY APPROXIMATELY
10 PERCENT AS OF 1ST JANUARY, 1977, AND BY A FURTHER
5 PERCENT AS OF 1ST JULY, 1977. SAUDI ARABIA AND THE
UNITED ARAB EMIRATES DECIDED TO RAISE THEIR PRICES BY
5 PERCENT AS OF 1ST JANUARY, EFFECTIVE THROUGHOUT 1977.

2. UNTIL NOW SAUDI ARABIA HAS BEEN A MODERATING
FORCE IN OPEC PRICE DECISIONS BASED ON ITS IMPLIED
ABILITY TO SET LOWER PRICES AND TO RELEASE ITS EXCESS
PRODUCTION TO THE MARKET IN SUPPORT OF THESE PRICES.
THE ASSUMPTION WAS THAT THROUGH THE ACTION OF THE
MARKET OTHER PRODUCERS WOULD BE FORCED BY LOSS OF
SALES AND NEEDED REVENUES TO ALIGN THEIR PRICES WITH
THOSE DESIRED BY SAUDI ARABIA.

3. WITH THE SPLIT DECISION IN DOHA, THIS ASSUMPTION IS
NOW PUT TO THE TEST. IF THE OPEC COUNTRIES RECONSIDER
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THE TWO-TIER SYSTEM AND FIX NEW PRICES WHICH ON A
COMPOSITE AVERAGE REPRESENT A REDUCTION FROM THE PRESENT
THEORETICAL AVERAGE, IT WILL BE EVIDENT THAT SAUDI
ARABIA'S ACTIONS HAVE INFLUENCED THE SITUATION AND THAT
IN FUTURE PRICE DISCUSSIONS ITS VIEWS WILL CONTINUE TO
HAVE AN IMPORTANT INFLUENCE ON THE OUTCOME.

4. HOWEVER, IF THE 11 HIGHER PRICED COUNTRIES ARE ABLE
TO MAINTAIN THEIR RECENTLY ESTABLISHED PRICES, SAUDI
ARABIA'S INFLUENCE IN FUTURE OPEC PRICE DISCUSSIONS
COULD BE GREATLY REDUCED AND THE GENERAL UPWARD
PRESSURE ON OIL PRICES INCREASED.

5. THE FOLLOWING SECTIONS EXAMINE THE POSSIBLE SHORT-
TERM SUPPLY AND DEMAND IN 1977 IN THE LIGHT OF EXPECTED

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ECONOMIC ACTIVITY AND OF THE NEW MARKET SITUATION.
PARTICULAR ATTENTION IS GIVEN TO THE IMPLICATIONS FOR
SUPPLY PATTERNS AND MARKET STRUCTURE OF A TWO-TIER
PRICING SYSTEM. FINALLY, THE REPORT EXAMINES THE SCOPE
FOR POSSIBLE POLICY INITIATIVES AND FOR COORDINATED
ACTION WITHIN THE IEA.

II. THE NEW DUAL PRICE SITUATION AND POSSIBLE SHIFTS
IN S//UPLY PATTERNS
(A) NEW CRUDE OIL PRICES

6. A LIST OF THE NEW PRICES OF THOSE OPEC STATES
WHICH HAVE OFFICIALLY ANNOUNCED THEM, SHOWING A
COMPARISON WITH PREVIOUS PRICES AND CORRESPONDING
DIFFERENTIALS IS ATTACHED AS ANNEX 2.

7. IN FIXING ITS NEW PRICES INDONESIA HAS ANNOUNCED
INCREASES AVERAGING OVERALL 7 PERCENT. THIS IN EFFECT
PUTS INDONESIA IN AN INTERMEDIATE CATEGORY BETWEEN
SAUDI ARABIA AND THE UAE AND THE OTHER 10 MEMBERS OF
OPEC.

8. MOST OF THE PRODUCING COUNTRIES WHEN APPLYING THE
NEW PRICES TO THEIR DIFFERENT QUALITY CRUDES TOOK THE
OPPORTUNITY TO ADJUST THEIR PREVIOUS DIFFERENTIALS IN
RELATION TO THE SAUDI ARABIAN 34 DEGREE MARKER CRUDE,
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IN ORDER TO RAISE THE RELATIVE PRICES OF THE LIGHTER

QUALITY CRUDES AND BETTER REFLECT THE DEMAND REALITIES OF THE MARKETPLACE. HOWEVER, THE CHANGES IN DIFFERENTIALS WERE NOT APPLIED IN A STRICTLY EQUAL WAY BY THE DIFFERENT PRODUCING COUNTRIES: THUS IRAN HAS INCREASED ITS OLD PRICE OF 31 DEGREE CRUDE BY 10.2 PERCENT WHILE SAUDI ARABIA HAS INCREASED THAT OF ITS CORRESPONDING CRUDE BY ONLY 3.6 PERCENT. IT IS OBVIOUS THAT THIS WILL FURTHER INCREASE THE COMPETITIVE ADVANTAGE OF THE SAUDI CRUDE VIS-A-VIS THE IRANIAN AND ANY OTHER COMPARABLE CRUDES.

9. IT HAS BEEN SUGGESTED THAT SOME OF THE COMPETITIVITY OF CRUDE FROM THE HIGHER PRICE COUNTRIES COULD BE RESTORED BY THEIR EXTENDING CREDIT TERMS FOR PAYMENT. AS AN INDICATION, THE DIFFERENCE IN MARKER CRUDE PRICE FOR THE TWO GROUPS OF PRODUCERS IS NOW 61 CENTS. TO OVERCOME THIS DIFFERENCE WOULD REQUIRE AN ESTIMATED 6 MONTHS OF EXTENDED CREDIT OVER AND ABOVE THE NORMAL 30-60 DAYS.

(B) DEMAND FOR OPEC OIL IN 1977

10. WORLD DEMAND FOR OPEC OIL IN 1977 IS NOW EXPECTED TO REMAIN AT OR SLIGHTLY BELOW THE 1976 LEVEL. THE SHORT-TERM FORECAST PRESENTED IN THE SUMMARY TABLE BELOW IS PREDICATED LARGELY UPON THE MODERATING INFLUENCES IMPARTED BY SLOWER GROWTH IN ECONOMIC ACTIVITY, A CONTINUED RISE IN NON-OPEC OIL SUPPLIES AND THE EXPECTED RUNDOWN OF EXTRA STOCKS ACQUIRED IN THE LATTER PART OF 1976. THESE MODERATING INFLUENCES, HOWEVER, ARE EXPECTED TO BE OFFSET PARTLY BY A COLDER THAN AVERAGE WINTER IN NORTH AMERICA AND A RETURN TO AVERAGE WINTER TEMPERATURES IN EUROPE, AND PARTLY BY HIGHER ECONOMIC ACTIVITY RATES IN THE MAIN OIL-CONSUMING COUNTRIES OF JAPAN AND THE UNITED STATES.

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11. THE ACTUAL PATTERN OF DEMAND FOR OPEC OIL IN 1977 IS HIGHLY DEPENDENT UPON THE OUTCOME OF SPECIFIC ASSUMPTIONS UNDERLYING THE SECRETARIAT'S ESTIMATES. THESE CRITICAL ASSUMPTIONS, AS WELL AS A DETAILED EXPLANATION OF THE FORECAST, ARE EXAMINED IN ANNEX 1.

SUMMARY TABLE

EXPECTED DEMAND FOR OPEC OIL
AND PROBABLE PRODUCTION IN 1977
(MBD)

1976	1977	1977			
MILLION B/D	ANNUAL	ANNUAL	QI	QII	2ND HALF

WORLD DEMAND:

OPEC PROD.TOTAL 30.1 29.9 28.0 29.6 30.9

OF WHICH:

SAUDI ARABIA & UAE 1N.5 12.8 12.0 12.7 13.3

OTHER OPEC 19.6 17.1 16.0 16.9 17.6

SOURCE: SECRETARIAT ESTIMATES: SEE ANNEX 3.

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(C) AVAILABILITY OF 5 PER CENT OIL

12. RECENT PUBLISHED SOURCES (E.G. PIW) HAVE CITED A TOTAL PRODUCING CAPACITY FOR SAUDI ARABIA OF 11.8 MBD AND FOR THE UAE OF 2.42 MBD, A TOTAL OF 14.22 MBD, WHICH WOULD REPRESENT AN INCREASE OF 2.86 MBD OVER NOVEMBER 1976 PRODUCTION OR 3.76 MBD OVER THE 1976 JANUARY TO NOVEMBER AVERAGE.

13. THERE ARE SEVERAL POSSIBLE REASONS WHY THESE INDICATED MAXIMUM PRODUCING CAPACITIES MIGHT NOT BE ATTAINED AT PRESENT:

- THE ACTUAL CAPACITY, AT LEAST IN THE SHORT TERM, IS LESS THAN THE ATTRIBUTED TECHNICAL PRODUCTION CAPACITY, DUE MAINLY TO A LACK OF INFRASTRUCTURE (PIPELINES, JETTIES, ETC.) FOR PRODUCING AND EXPORTING THE OIL;

- ACHIEVING THE 11.8 MBD FIGURE FOR SAUDI ARABIAN
MAXIMUM PRODUCING CAPACITY WOULD IMPLY RAISING
CONSERVATION RESTRICTIONS PRESENTLY APPLYING
TO SOME FIELDS;

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- THE SAUDI AND UAE GOVERNMENTS COULD MAINTAIN
MAXIMUM LIMITS WHICH ARE LOWER THAN THE MAXIMUM
POSSIBLE PRODUCTION;

- THE COMPANIES MIGHT NOT ACQUIRE ALL OF THE OIL
AVAILABLE DUE TO LIFTING COMMITMENTS IN OTHER
PRODUCING COUNTRIES AND/OR THE HEAVIER QUALITIES
OF THE INCREMENTAL SAUDI CRUDE.

UNDER THESE CIRCUMSTANCES A REASONABLE ESTIMATE FOR
AVAILABILITY OF 5 PER CENT CRUDE MIGHT BE:

MBD	1ST QUARTER	2ND QUARTER	2ND HALF
SAUDI ARABIA	10.0	10.5	11.0
UAE			

(D) IMPLICATIONS FOR OTHER OPEC COUNTRIES

14. IN ANNEX 3 ONE POSSIBLE SCENARIO IS DEVELOPED FOR
THE 1977 AVERAGE PRODUCTION LEVELS OF EACH OF THE OPEC
COUNTRIES, GIVEN THE FORECAST OVERALL DEMAND FOR THEIR
OIL. THIS SCENARIO SHOULD BE CONSIDERED AS MERELY AN
ILLUSTRATIVE PRODUCTION PATTERN, SINCE THE DEGREE OF
UNCERTAINTY IS LARGE.

15. THE IMPACT OF AN INCREASE IN SAUDI AND UAE PRO-
DUCTION WILL PROBABLY BE FELT TO THE GREATEST EXTENT BY
IRAN AND KUWAIT AND TO A LESSER DEGREE VENEZUELA, SINCE
THE INCREMENTAL VOLUMES OF CRUDE THAT SAUDI ARABIA HAS
AVAILABLE IN THE NEAR TERM ARE MAINLY OF ITS MEDIUM
AND HEAVY CRUDES. THE PRODUCTION SCENARIO OF ANNEX 3
IMPLIES VOLUME DECLINES OF 30 PERCENT FOR KUWAIT,
18 PERCENT FOR IRAN AND 13 PERCENT FOR VENEZUELA. HOW-
EVER, MOST OF THE OTHER OPEC COUNTRIES MAY ALSO HAVE
TO REDUCE PRODUCTION IN 1977 BELOW 1976 LEVELS.

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16. TAKING INTO ACCOUNT THE INCREASE IN PER BARREL REVENUES AND THE PRODUCTION SCENARIO OF ANNEX 3, THE OVERALL REVENUES OF THE 11 HIGHER-PRICE COUNTRIES WOULD BE VIRTUALLY UNCHANGED IN 1977 COMPARED TO 1976. HOWEVER, THE COUNTRIES MOST AFFECTED BY THE SWITCH TO "5 PER CENT" CRUDE WOULD SUFFER A DROP IN REVENUES: 21 PER CENT FOR KUWAIT, 7.5 PER CENT FOR IRAN AND 3.7 PER CENT FOR VENEZUELA. WHILE KUWAIT HAS THE HIGHEST RELATIVE LOSS OF REVENUE, IRAN AND TO A LESSER EXTENT VENEZUELA WOULD BE UNDER GREATER PRESSURE IN THE LIGHT OF THEIR BUDGETARY NEEDS.

17. IRAN HAS RELATIVELY SMALL MONETARY RESERVES - ABOUT \$5 BILLION. WITH AN INCREASED BUDGETARY REQUIREMENT, SUCH A REVENUE LOSS COULD REQUIRE IT TO CURTAIL SOME OF ITS DEVELOPMENT PROGRAMS. IRAN WOULD THEREFORE STAND TO GAIN A SUBSTANTIAL AMOUNT IN ECONOMIC TERMS FROM AN EARLY MEETING OF OPEC TO AGREE ON A COMPROMISE PRICE INCREASE. ASSUMING SUCH AN INCREASE WOULD BE IN THE RANGE OF 6-7 PER CENT AND AS A RESULT THE OIL

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MARKET MOVES BACK INTO EQUILIBRIUM, IRAN WOULD BE SOME 15 PER CENT BETTER OFF AS FAR AS OVERALL REVENUES ARE CONCERNED THAN IS ESTIMATED UNDER THE DUAL PRICING SYSTEM.

18. FOR VENEZUELA, THE PROJECTED DECLINE IN ITS REVENUES IS SOME 4 PER CENT OF ITS BUDGET REQUIREMENTS. WITH RESERVES IN THE REGION OF \$8 BILLION AND THE PROS-

PECT OF INCREASING SALES IN 1978, VENEZUELA WOULD NOT BE AS SEVERELY AFFECTED AS IRAN.

19. IRAQ, WITH LIGHTER BUT HIGH SULPHUR CRUDES, COULD POTENTIALLY BE AFFECTED. HOWEVER, IT IS QUESTIONABLE IN THE LIGHT OF PAST EXPERIENCE WHETHER IRAQ WOULD FOR LONG SUFFER A DROP IN EXPORTS WITHOUT SHADING ITS PRICES TO STIMULATE SALES. FURTHER, SOME OF ITS PRODUCTION IS NOW BEING DELIVERED BY A NEW PIPELINE TO THE MEDITERRANEAN GIVING IT A TRANSPORTATION ADVANTAGE OVER THE GULF CRUDES. IRAQ MIGHT THEREFORE BE ABLE TO MAINTAIN ITS PRODUCTION IN 1977 NEAR ITS 1976 AVERAGE OF 2.1 MBD.

20. THE ONLY ALTERNATIVE TO REACHING A COMPROMISE FOR THE 11 HIGHER-PRICE COUNTRIES IF THEY WISH TO MAINTAIN OR INCREASE THEIR REVENUES IN 1977 WOULD BE FOR THEM TO CONFIDENTIAL

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AGREE ON YET ANOTHER OIL PRICE INCREASE - ON THE ASSUMPTION THAT THIS COULD NOT HAVE ANY FURTHER SIGNIFICANT EFFECT ON DEMAND FOR THEIR OIL. HOWEVER, THIS WOULD INCREASE STILL FURTHER THE TEMPTATION FOR INDIVIDUAL COUNTRIES TO SHAVE PRICES IN ORDER TO INCREASE THEIR MARKET SHARES, PRODUCE FURTHER STRAINS BETWEEN THE OPEC MEMBERS AND INCREASE CONFUSION ON THE MARKET.

III. IMPACT ON THE PRICE STRUCTURE OF CRUDE OIL AND PRODUCTS

21. A MORE DETAILED ANALYSIS OF THE PASS-THROUGH QUESTION IS CONTAINED IN ANNEX 4. THE MAIN POINTS ARE PRESENTED BELOW.

22. WHILE THE MODALITIES ARE STILL FAR FROM CLEAR, SAUDI ARABIA HAS STATED ITS INTENTION TO SEE THAT THE PRICE ADVANTAGE OF ITS CRUDE OIL IS PASSED ON INTEGRALLY TO THE CONSUMERS, AND THAT ADDITIONAL QUANTITIES, TO BE HANDLED ENTIRELY BY ARAMCO, SHOULD BE ALLOCATED TO CONSUMING COUNTRIES ACCORDING TO THEIR 1976 VOLUMES OF SAUDI CRUDE.

23. THE TWO-TIER SYSTEM AND THE PASS-THROUGH REQUIREMENTS WILL HAVE A NUMBER OF IMPORTANT CONSEQUENCES FOR THE OIL INDUSTRY AND CONSUMING GOVERNMENTS:

- COMPOSITE CRUDE OIL COSTS WILL VARY FOR COMPANIES ACCORDING TO THEIR SHARE OF "5 PER CENT" CRUDE; THE ARAMCO PARTNERS WILL BE IN THE MOST FAVORABLE SITUATION IN THIS RESPECT;

- REFINERS' PETROLEUM PRODUCT COSTS WILL VARY
ACCORDING TO THEIR CRUDE MIX AND ABILITY TO
SWITCH TO CHEAPER CRUDES;

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- IT IS VERY DIFFICULT TO PREDICT WHICH PRODUCTS
WILL BEAR THE BRUNT OF PRICE INCREASES AND TO
WHAT EXTENT;

- AS INITIALLY LITTLE OR NO "5 PER CENT" CRUDE
WILL BE AVAILABLE FOR THE INDEPENDENT TRADE,
AND AS INCREMENTAL REFINING WILL HAVE TO RELY
ON THE MORE EXPENSIVE CRUDES, THE COMPETITIVITY
OF THE INDEPENDENT TRADE WILL BE SERIOUSLY
AFFECTED.

24. IN PARTICIPATING COUNTRIES WHERE NATIONAL OIL
PRICE REGULATIONS ARE BASED ON REPRESENTATIVE COST
AND PRICE CALCULATIONS, GOVERNMENTS WILL BE FACED WITH
THE DIFFICULTY OF IDENTIFYING A JUSTIFIED PRICE. GIVEN
DIFFERING DEGREES OF INDIVIDUAL COMPANIES' ACCESS TO
"CHEAPER OIL", SUCH CALCULATIONS MAY EITHER BE TOO
HIGH OR TOO LOW. THE SOM HAS INVITED PARTICIPATING
COUNTRIES TO REPORT ON THEIR ANALYSIS OF THEIR NATIONAL
MARKET SITUATIONS, THEIR SPECIFIC EXPERIENCES AND
DIFFICULTIES WITH REGARD TO PRICING POLICIES AS WELL
AS ON POSSIBLE SOLUTIONS TO THE PROBLEM.

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25. A FIRST EXCHANGE OF VIEWS ON THIS SUBJECT IS SCHEDULED TO TAKE PLACE AT THE 16TH SESSION OF THE SOM. HOWEVER, THE PREVAILING UNCERTAINTY ON THE MARKETS, TOGETHER WITH THE TEMPORARY IMPACT OF THE EXPECTED DRAWDOWN OF THE HIGH CRUDE OIL STOCKS ACCUMULATED BY THE OIL INDUSTRY DO NOT APPEAR TO ALLOW A CLEAR ENOUGH ANALYSIS AS YET ON WHICH TO BASE POLICY INITIATIVES.

IV. IMPACT ON IEA IMPORTING COUNTRIES

26. CONSUMING COUNTRIES' OIL IMPORT BILLS WILL DEPEND ON THEIR PERCENTAGE SHARE OF "5 PERCENT" CRUDE. WHILE IT WOULD BE DIFFICULT TO PREDICT EVENTUAL CHANGES IN COMPOSITION OF IMPORTS DURING 1977, SOME INDICATION OF THE AMOUNT OF CHEAPER AND MORE EXPENSIVE CRUDES AVAILABLE TO EACH CONSUMING COUNTRY MAY BE OBTAINED FROM 1976 DATA (TO SOME EXTENT INCOMPLETE) DRAWN FROM THE GENERAL INFORMATION SYSTEM. A DETAILED TABLE IS INCLUDED IN ANNEX 5. THIS SHOWS THAT SPAIN, SWEDEN, SWITZERLAND, JAPAN, DENMARK, AND BELGIUM WERE MOST FAVORABLY PLACED AS REGARDS "5 PERCENT" CRUDE, WITH NORWAY, NEW ZEALAND AND TURKEY IN THE LEAST FAVORABLE POSITIONS.

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27. USING THESE FIGURES FOR THE SPLIT BETWEEN "5 PER CENT" AND 10 PER CENT" CRUDES, IT IS POSSIBLE TO MAKE A ROUGH ESTIMATE OF THE DIRECT BALANCE-OF-PAYMENTS IMPACT OF THE 1977 OIL PRICE INCREASE ON INDIVIDUAL CONSUMING COUNTRIES (SEE ANNEX 5). THE OVERALL INCREASE IN OECD OIL BILL IS ESTIMATED TO REACH \$10.3 BILLION OR 8.3 PER CENT, (SOME \$2.1 BILLION LESS THAN IF THE OIL PRICE INCREASE HAD BEEN 10 PER CENT). AS TO THE DIFFERENTIAL IMPACT ON IEA COUNTRIES IMPORT COSTS, THE EFFECT ON OIL IMPORT BILLS RANGES FROM 7.6 PER CENT (SWEDEN AND SWITZERLAND) TO 9.7 PER CENT (TURKEY).

V. POSSIBLE SCOPE FOR GOVERNMENT POLICY INITIATIVE AND CO-ORDINATED ACTION WITHIN THE IEA

28. THE PRESENT SITUATION IS CONFUSED AND DIFFICULT FOR BOTH GOVERNMENTS AND COMPANIES. A TWO-TIER PRICE

SYSTEM FOR CRUDE OIL WILL TEND TO PUT CONSUMER COUNTRIES IN SOMETHING OF A DILEMMA. ON THE ONE HAND THEY ARE INTERESTED IN CHEAPER OIL AND PETROLEUM PRODUCT PRICES AND CAN ONLY EXERT PRESSURE ON THE ELEVEN HIGHER-PRICE COUNTRIES BY MEANS OF A PASS-THROUGH OF THESE CHEAPER PRICES; ON THE OTHER HAND THIS PASS-THROUGH CREATES GRAVE DIFFICULTIES FOR THE OIL MARKETS AND NATIONAL OIL INDUSTRIES.

29. IT REMAINS TO BE SEEN HOW OIL COMPANIES AND CONSUMER GOVERNMENTS WILL ADAPT TO THE TWO-TIER SITUATION AND HOW LONG OPEC COUNTRIES CAN SUSTAIN SUCH A SYSTEM. FROM ITS VERY NATURE IT SEEMS BOUND TO BE SHORT-LIVED. SOME PRODUCING COUNTRIES ARE ALREADY REPORTED TO BE CONSIDERING CALLING A NEW OPEC MEETING IN THE NEAR FUTURE.

30. IN ANY EVENT THE IMPACT OF THE TWO-TIER SITUATION
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WILL ONLY REALLY BE FELT IN A FEW MONTHS' TIME AFTER STOCKS HAVE BEEN DRAWN DOWN, BY WHICH TIME A CLEARER PICTURE MAY HAVE EMERGED. IN THE MEANTIME, IT WILL BE IMPORTANT FOR THE IEA TO MONITOR CONTINUOUSLY THE EVOLUTION OF THE MARKET SITUATION AND TO CONTINUE TO ANALYZE IN GREATER DEPTH PARTICULAR PROBLEMS CAUSED BY THE NEW SITUATION, SUCH AS THE EQUALITY OF TREATMENT OF PARTICIPATING COUNTRIES, THE COMPETITIVE SITUATION OF OIL COMPANIES, AND THE IMPLICATIONS FOR NATIONAL PRICING OF OIL PRODUCTS.

31. THE GENERAL SECTION OF THE INFORMATION SYSTEM ON THE INTERNATIONAL OIL MARKET, ADAPTED TO THE NEEDS OF THE PRESENT SITUATION, COULD PROVIDE USEFUL HELP IN COLLECTING THE NECESSARY INFORMATION ON THE COST AND PRICE DEVELOPMENTS FOR PARTICIPATING COUNTRIES AND MONITORING THE PASS-THROUGH OF THE "5 PER CENT CRUDE" ADVANTAGE. THE ADAPTATIONS SO FAR ENVISAGED WOULD COMPRISE:

- A MONTHLY INSTEAD OF QUARTERLY REPORTING -
AT LEAST ON A TEMPORARY BASIS;

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- A REPORTING ON "DATE OF LOADING" INSTEAD OR
IN ADDITION TO "DATE OF DISCHARGE", SO FAR
USED;

- A MORE DETAILED BREAK-DOWN FOR THE "CHEAPER"
CRUDE OIL STREAMS AS APPROPRIATE.

32. SINCE THE PRESENT REPORTING SYSTEMS ARE BASED ON
THE PRINCIPLE OF AGGREGATION, SO THAT NO INDIVIDUAL
COMPANY DATA ARE IDENTIFIED, IT IS INEVITABLE THAT THE
SCOPE OF ANALYSIS WHICH THE SYSTEMS ALLOW IS VERY
LIMITED. A COMPANY-BY-COMPANY MONITORING, WHICH WOULD
BEST SERVE PARTICIPATING COUNTRIES' OBJECTIVES IN
SITUATIONS LIKE THE ONE PREVAILING, WOULD ONLY, HOW-
EVER, BE POSSIBLE IF PARTICIPATING COUNTRIES COULD
AGREE ON THE PRINCIPLE OF DISAGGREGATION. IN THE
ABSENCE OF SUCH AN AGREEMENT, MORE INTENSIFIED USE
WILL BE MADE OF THE TOOLS WHICH THE "CHAIRMAN'S
COMPROMISE" AND THE CONSULTATION PROCEDURE PROVIDE IN
ORDER TO TAKE A CLOSER LOOK AT SPECIFIC SUPPLY
SITUATIONS.

33. IN THE EVENT THAT THE TWO-TIER SYSTEM IS MAIN-
TAINED OVER A LONGER PERIOD, CONSUMER COUNTRIES MAY
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NEED TO DECIDE WHETHER THEY WISH TO ALLOW THE DUAL
PRICING TO WORK ITS WAY COMPETITIVELY THROUGH THEIR
INTERNAL MARKETS, WHICH IMPLIES SOME ADVANTAGES AS
WELL AS SOME DRAWBACKS; OR WHETHER THEY FEEL IT NECES-
SARY TO CONSIDER POSSIBILITIES FOR AN EQUALIZATION OF

CRUDE OIL COSTS AND PRICES WHICH WOULD HAVE TO EVEN
OUT DIFFERENCES BETWEEN COMPANIES AND/OR CONSUMER
COUNTRIES, WITHOUT TAKING THE ECONOMIC PRESSURE OF A
TWO-TIER SITUATION OFF THE HIGH-PRICE OPEC PRODUCERS.
HOWEVER, THE DIFFICULTIES ASSOCIATED WITH ANY REMEDIAL
MEASURES ARE SUBSTANTIAL AND IT WOULD PROBABLY BE
DESIRABLE TO POSTPONE ANY INITIATIVES UNTIL THE PICTURE
BECOMES SOMEWHAT CLEARER.

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Legacy Key: link1977/newtext/t19770141/aaaabkcq.tel
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Litigation History:
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Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 13
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3572294
Secure: OPEN
Status: NATIVE
Subject: IEA: STANDING GROUP ON THE OIL MARKET - IMPLICATIONS OF THE DUAL PRICING SYSTEM IN THE INTERNATIONAL OIL MARKET IN 1977
TAGS: ENRG, OECD
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/367647d5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009